

## Message Text

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C O N F I D E N T I A L USNATO 1809

E.O. 11652: GDS

TAGS: PROF, ECON, NATO

SUBJECT: ECONADS: PAPER ON STRATEGIC AND POLITICAL IMPLICATIONS  
OF ECONOMIC SITUATION

REF: A. USNATO 1647

B. USNATO 1699

C. USNATO 1703

1. USNATO ECONAD AND ECONOMIC DIRECTORATE HAVE REDRAFTED PARAGRAPHS 8 AND 9, AND OLD PARAGRAPH 18 AND 19 (NEW PARAGRAPHS. 25 AND 26 OF US PAPER ON IMPLICATIONS OF ECONOMIC SITUATION (AC/127-WP /423) TO TAKE ACCOUNT OF COMMENTS BY OTHER ALLIED DELEGATIONS AT MARCH 24-25 ECONOMIC COMMITTEE MEETING (REF A). DEPARTMENT'S COMMENTS ON THESE PARAGRAPHS AND REMAINDER OF REVISED REPORT (REFS B AND C) SHOULD REACH MISSION IN TIME FOR NEXT COMMITTEE MEETING APRIL 7.

2. REVISED PARAGRAPHS ARE AS FOLLOWS:

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8. IN SHARP CONTRAST TO THE WARSAW PACT COUNTRIES WHICH, AS A GROUP, ARE SELF-SUFFICIENT IN OIL (THE USSR IS EVEN ABLE TO EXPORT TO THE NON COMMUNIST AREA SOME FIFTY MISSION TONS OF PETROLEUM A YEAR) MOST NATO COUNTRIES ARE HEAVILY DEPENDENT ON

OUTSIDE SOURCES FOR THIS ESSENTIAL PRODUCT. IN THIS REGARD, HOWEVER, A DISTINCTION SHOULD BE DRAWN BETWEEN THE NORTH AMERICAN MEMBERS WHO, TOGETHER, WOULD BE ABLE TO PULL THROUGH AND THE EUROPEAN ALLIES WHO-DESPITE EMERGENCY SHARING ARRANGEMENTS-WOULD BE IN A MORE VULNERABLE POSITION SHOULD SUPPLY LINES BE DISRUPTED THROUGH WARSAW PACT ACTION. THE DEPENDENCE OF NATO COUNTRIES, AS A WHOLE, ON COMMUNIST COUNTRIES' OIL IS VERY LIMITED; IN 1973 IMPORTS AMOUNTED TO ONLY 28 MILLION TONS (I.E. ABOUT 3 PERCENT OF OVERALL IMPORTS). HOWEVER, THE DEGREE OF DEPENDENCE IS PARTICULARLY IMPORTANT IN THE CASE OF ICELAND (ABOUT THREE-QUARTERS OF HER OIL IS IMPORTED FROM THE SOVIET UNION). AN ADDITIONAL CONSIDERATION IN THE MEDIUM TERM WOULD BE THE GROWING ROLE OF THE USSR AS A SUPPLIER OF NATURAL GAS TO A NUMBER OF WEST EUROPEAN COUNTRIES.

9. THE PROBLEM OF RELATIONS WITH THE OIL PRODUCING AND EXPORTING COUNTRIES-ALTHOUGH NOT DIRECTLY WITHIN THE AREA OF NATO RESPONSIBILITY-CANNOT BE OVERLOOKED IN VIEW OF THE ECONOMIC STRATEGIC AND POLITICAL IMPLICATIONS OF POSSIBLE CHANGES IN THE PRICE OF OIL, IN THE LEVEL OF PRODUCTION AND IN THE ARRANGEMENTS TO ENSURE A REGULAR FLOW OF SUPPLIES. IT IS UNLIKELY THAT DELIVERIES TO NATO WOULD BE CURTAILED FOR ECONOMIC CONSIDERATIONS. INDEED THE AMBITIOUS DEVELOPMENT PROGRAMMES WHICH MANY OPEC COUNTRIES HAVE LAUNCHED, AND THE RESERVES THEY ARE ACCUMULATING IN WESTERN CURRENCIES, MAKE THEM DEPENDENT ON POLITICAL, ECONOMIC AND FINANCIAL STABILITY IN THE WEST, AS WELL AS ON WESTERN FOOD TECHNOLOGY AND EQUIPMENT. ATTEMPTS TO FRUSTRATE WESTERN EFFORTS TO IMPROVE THE CURRENT ECONOMIC SITUATION WOULD BE TO THE DETRIMENT OF THE OIL PRODUCERS OWN INTEREST. THIS IS A FACTOR WHICH SHOULD WORK TOWARDS MODERATION OF OIL PRODUCERS BEHAVIOUR IN THE WORLD MARKETS.

#### BUDGETS

25. THE PRESENT ECONOMIC SITUATION MAKES ESTIMATES OF GOVERNMENT EXPENDITURE EXTREMELY TENTATIVE. BUDGETARY DECISIONS FOR 1975 ARE EITHER STILL BEING FINALIZED OR MAY HAVE TO BE REVISED  
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THROUGHOUT THE COURSE OF THE YEAR IN THE LIGHT OF THE NEED TO STIMULATE GROWTH WITHOUT EXACERBATING EXISTING INFLATIONARY PRESSURES.

26. CURRENT PROJECTIONS INDICATE IN MOST ALLIED COUNTRIES STAGNATION OR DECLINE IN THE REAL RATE OF GROWTH OF NATO GOVERNMENT EXPENDITURES IN 1974 AND 1975. OF PARTICULAR RELEVANCE IS THE ABSOLUTE DECLINE IN UNITED STATES REAL SPENDING.

MOST GOVERNMENTS ARE FACED WITH INCREASED EXPENDITURES WHICH WOULD NORMALLY INVOLVE INCREASED TAXATION. HOWEVER, RECESSIONARY TENDENCIES AND TRADITIONAL RELUCTANCE OF LEGISLATORS TO PASS TAX INCREASES IN

A DETERIORATING ECONOMIC CLIMATE MAKE THE OUTLOOK FOR ADDED  
REVENUES FROM THIS SOURCE UNLIKELY. PRESSURE IS BUILDING UP IN  
SOME COUNTURES FOR MEASURES TO REFLATE THE ECONOMY, AND IN THE  
PARTICULAR INSTANCE OF THE UNITED STATES TAXES BEING REDUCED.

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